

**Open Report on behalf of Andrew Crookham,
Executive Director - Resources**

Report to:	Overview and Scrutiny Management Board
Date:	27 February 2020
Subject:	Treasury Management Performance to Quarter 3 2019/20

Summary:

This report details the treasury management activities and performance for Quarter 3 of 2019/20 to 31 December 2019, comparing this to the Treasury Management Strategy and Annual Investment Strategy 2019/20 that was approved by the Executive Councillor for Resources and Communications on 21 March 2019. This report meets the reporting requirements as detailed in the CIPFA Code of Practice for Treasury Management which we follow.

Actions Required:

That the report is noted and any comments be passed onto the Executive Councillor for Resources and Communications.

1. Background

- 1.1. The Treasury Management Strategy and Annual Investment Strategy 2019/20 sets the framework for how we manage the cashflow, borrowing and treasury investments of the Council and the risks involved.
- 1.2. Actual activity and performance compared to this strategy is reported quarterly, this report being the third quarter report for 2019/20 covering the period up to 31 December 2019.
- 1.3. Activity and performance up to 31 December 2019 compared to the strategy is detailed in the Conclusion in Section 2 below. Supporting information is detailed in the attached appendices.

2. Conclusion

Comparison of Activity and Performance to Strategy for Period up to 31 December 2019

Interest Rate Forecast:

Strategy:

At the time of writing the Strategy:

- *Short term and long term rates forecast to rise during 2019/20, but not significantly.*
- *Market uncertainties, predominantly caused by Brexit, may delay or reverse any forecast increases in rates.*

Activity & Performance to 31 December 2019:

Short term Rates. No movement in rates over the period, as uncertainties in market delay expected increases.

Long Term Rates. During the first six months long term rates were on a falling trend, reaching historic lows, as markets sought a safe haven in an uncertain period by switching investments into gilts, pushing up gilt prices and hence reducing yields. As reported previously, the Treasury increased the margin on all PWLB borrowing rates by 1% on 9 October 2019 and during the quarter long term rates have risen moderately ending the period around 0.80% higher than at the start of the year in all periods.

Economic Review. Concerns over global economic growth and uncertainties with the outcome of Brexit may have a negative impact to the UK economy but it is difficult to predict what may happen and the timing.

Appendix A shows a graph of key interest rate movements to 31 December 2019 together with an economic background review and latest interest rate forecast from Link Asset Services Ltd (TM Advisor) dated 31 January 2020.

Investments:

Strategy:

- *Investment priority – security first, liquidity second and finally yield.*
- *Aim to invest in all periods up to 2 years to suit direction of interest rates, at rates in excess of market levels.*
- *Low risk counterparty strategy adopted: minimum long term rating for approved counterparties set at 'A' (from A+) for 2019/20 for any two from three credit rating agencies.*

Activity & Performance to 31 December 2019:

Investment Position and Performance.

Investments outstanding at 31 December 2019, stemming from the Council's cash flow resources, stood at £311m. The return on investments has continued to exceed benchmark returns and benchmark comparators, for the level of risk taken. Achieved by maintaining a longer weighted average maturity of investments, which was 123 days at the end of the period. For more detail see **Appendix B**.

Lending List Changes.

There was no change to the Lending List during period or to the Annual Investment Strategy that sets the Council's investment risk appetite. The Lending List as at 31 December 2019 is shown in **Appendix C**.

Appendix D shows a full list of investments held at 31 December 2019, combined with the creditworthiness list provided by Link Asset Services (TM Advisor).

Borrowing:

Strategy:

- *Long term external borrowing at start of year was £465.9m, costing 3.965%.*
- *New borrowing requirement for 2019/20 to finance capital programme was set at £118.4m.*
- *It was agreed that internal borrowing would be maintained at around 15% of the capital financing requirement for 2019/20. (Internal borrowing is using the Council's own internal cash balance to meet borrowing requirement).*
- *Any external long term borrowing would be taken with the aim to reduce the overall cost of debt and for periods to ensure an even debt maturity profile.*

Activity & Performance to 31 December 2019:

Revised Borrowing Requirement.	Taking into account carry forwards, internal borrowing and estimated rephasing/underspends, the borrowing requirement at 31 December 2019 was revised to £50.0m and projected internal borrowing revised to £102.4m by 31 March 2020.
Borrowing Position and Performance.	During the quarter, a further £5m of new external long term borrowing was taken from the PWLB over 46 years. This borrowing was taken just before the PWLB rate hike of 1% across the board. This resulted in the average cost of new debt taken in the year of just 1.85%. (The graph in Appendix A shows the timing of this borrowing at low points during the year). No further external borrowing is due in 2019/20, which will leave outstanding debt of £501.540m at the year end, costing 3.78%. A reduction in the overall cost of debt from the start of the year of 3.97% as per the strategy.
Temporary Borrowing.	£21m outstanding at quarter end taken to cover drops in liquidity during period. The cost of this debt was 0.6595%, below current money market rate levels and hence cost neutral.
Debt Rescheduling.	No debt rescheduling was undertaken in the period.
Prudential Indicator Limits 2019/20.	All prudential limits were met with no breaches during the period.

Appendix E shows borrowing detail and latest maturity profile at 31 December 2019.

Other Treasury Issues:

Revision to PWLB Borrowing Margins – 9 October 2019:

As previously reported, the PWLB increased the margin they charge on borrowing from 0.80% over gilt rates to 1.80% over during the quarter, on 9 October 2019, making the cost of long term borrowing 1% dearer over all periods. This was done to try to curb overall Council borrowing undertaken from the PWLB in total. Since this increase, rates have fallen, leaving them around 0.80% higher than they were at the start of the year.

3. Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

Risk & impact analysis for treasury management forms TMP1 of the Treasury Management Practices that are required by the CIPFA Code of Practice 2017. A treasury management risk register details the main risks for treasury management and this is reviewed annually. Both the TMPs and the risk register are held in the Corporate Section of Financial Strategy at County Offices.

4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Movement of Key Interest Rates to 31 December 2019, Economic Background and Latest Interest Rate Forecast from Link Asset Services Ltd.
Appendix B	Investments: Activity & Performance at 31 December 2019.
Appendix C	Authorised Lending List at 31 December 2019 and Credit Rating Key.
Appendix D	Investment Analysis Review at December 2019 - Link Asset Services Ltd.
Appendix E	Borrowing: Activity & Performance and Long Term Maturity Profile at 31 December 2019.

5. Background Papers

Document title	Where the document can be viewed
Treasury Management Strategy Statement and Annual Investment Strategy 2019/20 - 21/3/2019	http://lincolnshire.moderngov.co.uk/ieDecisionDetails.aspx?!D=496
Council Budget 2019/20 - 22/2/2019	http://lincolnshire.moderngov.co.uk/ieListDocuments.aspx?CId=120&MId=5273&Ver=4

This report was written by Karen Tonge, who can be contacted on 01522 553639 or karen.tonge@lincolnshire.gov.uk.

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